

Economic Impact Projections for the Matthews Sportsplex and Associated Development

Results from a RIMS II Input-Output Model

Conducted by

**David Swindell, Ph.D.
Independent Consultant**

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Executive Summary

The Town of Matthews (NC) consulted with an external specialist in economic development to review the Matthews Sportsplex project and related development, and to develop a set of economic impact estimates based on that review to assist the Town and Mecklenburg County as they move forward on funding for these projects. The core of this analysis employs the U.S. Bureau of Economic Analysis RIMS II input-output model. The analysis includes a range of assumptions that generate a range of estimates of the impacts related to the proposed projects.

Highlights from the analysis include:

- The Sportsplex development project will yield positive direct, indirect, and induced effects on the county and regional economies.
- The total economic impact of the \$32 million Sportsplex development is between \$78.1 million and \$85.1 million over the life of the direct expenditure.
- The Sportsplex development project will support between 223 and 247 (approximately 235) employees in Mecklenburg County.
- The Town hopes to leverage additional development from the Sportsplex and passed the Small Area Plan adjacent to the Sportsplex with initial estimates of the costs for the multiple residential, commercial, and entertainment establishments at approximately \$432 million (not including the costs of infrastructure development).
- The economic impact analysis of the potential new infrastructure assumes an initial capital cost to the Small Area Plan project of approximately \$10.3 million on approximately 140 acres yielding approximately \$26.7 million in economic impact from the infrastructure investment to the regional economy.
- The direct and indirect economic impact from the infrastructure development would support additional earnings for approximately 248 jobs during the infrastructure construction phase of the project.
- The total economic impact of the Small Area Plan to the Mecklenburg regional economy over a ten-year period is approximately \$3.5 billion (in 2011 dollars) supporting approximately 507 jobs per year (not cumulative, but including the

approximately 225 annual jobs directly at the businesses in the development area).

- The increased economic activity and employment associated with these investments will yield additional tax revenues to local jurisdictions.
- The presence of such a sports facility has an amenity value to residents of Matthews and Mecklenburg County that this model cannot monetize.
- While there are real costs, the analysis presented in this report concludes that that the benefits derived from the economic impact of both the Sportsplex facility and the Small Area Plan development exceeds the costs to taxpayers.

Economic Impact Projections for the Matthews Sportsplex and Associated Development

Cost-benefit analysis (CBA) is a tool for rigorously estimating the efficiency impacts of a policy decision. For this project, that decision is whether to fund the Sportsplex development along with affiliated infrastructure designed to support the Small Area Plan development plan surrounding it. While estimating costs associated with such decisions are relatively straightforward, the challenge lies more in estimating the benefits. Such estimates commonly rely on projections and assumptions concerning future economic conditions and are thus susceptible to manipulation by unreasonable assumptions. One useful tool for estimating the benefits associated with a project like the Sportsplex prototype development is economic impact analysis. This tool helps estimate the measureable public benefits (and negative benefits which are included in the costs side of the analysis) generated by a specific program or policy.

The Sportsplex development project would yield direct, indirect, and induced effects on the county and regional economies as capital flows through related basic and non-basic industries. These industries employ individuals who then spend money in the regional economy. And both the individuals and the employers in these industries contribute to the various local taxing jurisdictions. Taken together, these elements, minus the portion of the investments that leaves the regional economy, represent the economic impact of the overall project. An important note in this analysis is that there are other sports complexes in the Mecklenburg County system as well as in nearby counties. The Matthews Sportsplex would be competing for events with these other facilities. This analysis presumes a range of assumptions regarding how many of the events would be new to the local economy and not simply a relocation of activity from one part of the county to another (which represents no real economic growth). The construction of the development along with any *new* economic activity tied to the development is the basis for estimating the economic impact of this project.

The core of this analysis employs the U.S. Bureau of Economic Analysis RIMS II input-output model. Analysts use such models in a number of situations involving significant capital investments requiring measurements of the regional impacts of factors external to the economy, such as the implementation of a large scale project in a specific area.¹ While the primary activities associated with this project will take place in Mecklenburg County, the economic impacts spill over into the much wider regional economy of which Mecklenburg County is the center. This analysis employs the 6-county Charlotte-Gastonia-Concord Metropolitan Statistical Area as the basis of the analysis.

In order to provide complete estimates, the report presents the analysis two parts. The first part focuses on the initial Sportsplex project under consideration. Citizens and community leaders in Matthews established the Small Area Plan adjacent to the Sportsplex for a mixed use development of residential, commercial and retail tied to the proximity of the Sportsplex and facilitated with an anticipated infrastructure investment. The second section of the report focuses on projected economic impacts associated with these infrastructure developments.

The Matthews Sportsplex Impacts

Matthews and Mecklenburg County are partnering on the development of the Sportsplex facility near the intersection of I-485 and Independence Boulevard. The project is expected to cost \$32 million. This public investment alone will generate a significant economic impact for the region and exceeds the costs of the investment. Based on the projected direct expenditures of the public project costs, the analysis projects an indirect impact of between \$46.1 million and \$53.1 million. **The total economic impact of the Sportsplex development is between \$78.1 million and \$85.1 million over the life of the direct expenditure.**²

¹ U.S. Department of Commerce. (1997). *Regional Multipliers: A User Handbook for the Regional Input-Output Modeling System (RIMS II)*, Third Edition. U.S. Government Printing Office: Washington, DC.

² This range of estimates represents a set of more conservative and more optimistic assumptions concerning the proportion of the direct investment spent in the different regional economic sectors and differing assumptions about the inflation rate over the short term life of this investment. The midpoint of each range is \$49.6 million in indirect spending and \$81.6 million total, respectively.

Given the nature of the investment, the primary economic sectors contributing to the direct impacts include the construction and public administration sectors. Indirect impacts derive predominantly from the entertainment, sporting, service, and public administration sectors. These estimates derive from the RIMS II model and generate the indirect impacts without regard to the specific sectors benefitting. Rather, the model treats all the expenditures associated with the project as effectively one investment and assumes that portions of the expenditure will circulate in the regional economy through these various sectors. The money circulates (is re-spent) which represents this indirect spending on goods and services required to support the direct investment. Some of the re-spending will leak out of the regional economy. The economic multipliers are differentiated by sector, reflecting the fact that money leaks out of the regional economy at different rates depending on the economic sector.

Most of the expenditures from this investment will go to the acquisition of materials and construction of the facility, with a smaller annual operations allocation. This economic activity across this particular array of the Charlotte-Mecklenburg MSA economic sectors will support additional earnings in the regional economy of approximately \$13.4 million to direct and indirect employees. This would support between 279 and 309 employees at firms involved in the execution of the project or at firms providing indirect support to the project in the regional economy. Approximately 70% of these jobs would be earnings in Mecklenburg County, suggesting that **the Sportsplex development project will support between 223 and 247 (approximately 235) employees in Mecklenburg County.**³

³ See Footnote 2 previous. This employment estimate includes employees who will be working on the development project directly as well as those at firms supported indirectly.

Small Area Plan Infrastructure Development Impacts

Ostensibly, one of the community leaders' goals is to leverage the Sportsplex development into a larger mixed use development of land northwest of the Sportsplex site. The Town passed the Small Area Plan for this area with an eye towards this larger overall project. Some initial estimates of the costs for the multiple residential, commercial, and entertainment establishments place the economic development at approximately \$432 million. Moving forward on this Small Area Plan development is premised on both the Sportsplex development and the development of additional infrastructure to support the Small Area Plan development (which is not included in the \$432 million economic development). The following section focuses on the economic impact derived from the additional public expenditures supporting the infrastructure associated with the Small Area Plan.

The estimates in this section are more speculative due to lack of local government approvals for the expenditures, meaning the start dates are arbitrary for purposes of calculating benefits over time. While these plans are somewhat contingent on the implementation and success of the Sportsplex, initial estimates have already been made based on other similar facilities and are used here to illustrate the potential economic benefits associated with this larger scale endeavor.

The economic impact analysis of the potential new infrastructure assumes an initial capital cost to the Small Area Plan project of approximately \$10.3 million on approximately 140 acres.⁴ Benefits to the regional economy will occur during the construction phase of the infrastructure. As noted in the previous section, construction expenditures have a different magnitude of "ripple effect" in the economy than the effects from the operations of a facility. As with the public investment for the Sportsplex project, this second round of public expenditures in construction will generate another

⁴ This estimate includes the costs of the more conservative 2-lane model of Independence Pointe Parkway.

significant economic return for the region, far exceeding the initial costs.⁵ The primary infrastructure investment will yield approximately \$16.4 million in indirect economic impacts associated with construction, **totaling approximately \$26.7 million in economic impact from the infrastructure investment to the regional economy.** Assuming prevailing market rates for construction employment, this direct and indirect economic impact would support **additional earnings for approximately 248 jobs during the infrastructure construction phase of the project.**

The intent of Small Area Plan is to induce private sector investment through the establishment of the Sportsplex and the public investment in infrastructure in the area northwest of the Sportsplex. The costs for such a new development would be, in a sense, *induced* by the initial county investment in the infrastructure. Initial studies and land use planning for that area projects investments of approximately \$432 million.⁶ This would represent an investment by developers into the regional economy of the Charlotte-Mecklenburg MSA. Based on characteristics of other newly established mixed-use developments such as the Small Area Plan, one can estimate the economic impact and benefits associated with such an investment to the regional economy.⁷

Once the infrastructure is in place and the commercial, residential, and entertainment development is underway, there will continue to be annual expenditures associated with the operations of the businesses and homes in the area. The magnitude of these expenditures will depend on many assumptions regarding the success of attracting investors and developers, as well as businesses and residents. The remainder of these economic impact estimates focuses solely on the projected build-out costs (\$432 million) and proportionate weights based on the array of land uses included in the Small

⁵ It is important to note this indirect impact is not a return to the county government or Town of Matthews, but an impact in additional economic activity in the region as a whole with implications for supporting additional jobs.

⁶ The projection is unclear on the time frame or time period of this investment. While it likely represents the build-out costs, the impact estimate here will assume these costs are expended in one year for purposes of calculating project life benefit estimates.

⁷ The multipliers within the RIMS II model utilized in this analysis pre-date the decline in real estate values and the financial crisis of 2008. Therefore, the estimates based on other similar projects are likely optimistic relative to the current fiscal climate facing Mecklenburg County.

Area Plan. If the development were to come to pass, it is likely that the actual proportions of businesses and residential activities would not be precisely that indicated in the plan. Further, because there is no standard for estimating the long term economic benefit from an ongoing operation, the report presents two scenarios to illustrate the range of impacts associated with the new facility.⁸

Examining the economic impact of the development and projected operations of the activities it attracts over a ten-year period, the Mecklenburg regional economy could realize \$1.1 billion in total direct related spending. This economic activity would, in turn, yield an additional \$2.4 billion in indirect goods and services over the same period, yielding a **total ten-year economic impact of approximately \$3.5 billion (in 2011 dollars)**.⁹ This would yield additional earnings in the regional economy supporting approximately 507 jobs per year (not cumulative, but including the approximately 225 annual jobs directly at the businesses in the development area).

Conducting the same analysis over a 20-year operational period, the regional economy could realize approximately \$1.92 billion in direct related spending. This assumes a drop in later years due to aging infrastructure and declining market values.¹⁰ Such direct expenditures would yield an additional \$4.42 billion in indirect goods and services over the same 20 year period. **This would combine for a total 20-year economic impact of approximately \$6.34 billion (in 2011 dollars)**. Such ongoing expenditures would generate additional earnings for labor in the regional economy supporting approximately 473 jobs per year (not cumulative, but including the approximately 225 annual jobs directly at the businesses in the development area).

⁸ For projections into the future, a conservative discount rate was employed based on an inflation rate of 7%.

⁹ Note that not all this economic activity from the building and operations of activities in the Small Area Plan would remain in the Mecklenburg regional economy. Dollars from these sectors “leak” out much more quickly than construction or manufacturing dollars, and therefore the multipliers are smaller for the entertainment, commercial, and residential sectors of the economy. This leads to relatively lower rates of return on investment expenditures relative to infrastructure investments. Furthermore, the pay for jobs related to these sectors are also much lower than construction and manufacturing, relatively speaking.

¹⁰ Note the highly speculative nature of a 20-year time frame. The 20-year case is presented here to illustrate the economic impact sensitivity of this project and highlight that it will be more valuable as a regional economic asset to the public and private sectors in its earlier years.

Clearly, the economic value of these plans to the county and regional economy is robust. The money its presence would bring and circulate would support hundreds of jobs for several years. And while the economic activity is a primary benefit deriving from the new Sportsplex and Small Area Plan developments, there are additional non-financial benefits as well that should not be ignored. The increased economic activity and employment will yield additional tax revenues to local jurisdictions.¹¹ Furthermore, the presence of such a facility as a park has an amenity value to residents of Matthews and Mecklenburg County that this model cannot monetize. But the value exists as indicated by the participation of citizens in the planning process and the support exhibited for the plan by elected officials.

Finally, this analysis does not include all the costs that are associated with these projects. While the investment costs are automatically taken into account by the RIMS II methodology, there are additional costs not included in the model. For instance, it is common practice today for local and state governments to provide various tax incentives to encourage the construction or expansion of new businesses in particular locations. The value of these lost tax revenues would need to be included in adjustments for these figures presented above, if such incentives were provided to developers or businesses that moved into the new development. There may also be environmental and traffic costs associated with the establishment of these new facilities in what is currently an undeveloped wooded area. These costs would also need to be applied to a more complete analysis than presented here. The model also cannot estimate how this investment in the Sportsplex and the Small Area Plan development rates relative to alternative investments that might generate even larger economic impacts and returns to the regional economy.

¹¹ Due to the timeframe available to conduct this analysis, a full accounting of the benefits to local governments from enhanced tax revenues is beyond the scope of this initial preliminary analysis but could be included as part of a more in depth evaluation of this project.

While these are real costs, the analysis here suggests that the benefits derived from the economic impact of both the Sportsplex facility and the Small Area Plan development exceeds the costs to taxpayers.